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No. _____

IN THE

Supreme Court of the United States

October Term, 1983

CLARK EQUIPMENT COMPANY,
Petitioner,

vs.

LOUIS J. KELLER and CYRIL N. KELLER,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

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QUESTION PRESENTED

Whether state tort law may be used to require a licensee to continue to pay royalty payments to a patent holder after the licensee successfully invalidates the patents.

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OPINIONS BELOW

The opinion of the court of appeals (Appendix at A-1) is reported as 715 F.2d 1280 (8th Cir. 1983). The opinion of the district court (Appendix at A-25) is reported as 210 U.S.P.Q. 742 (D.N.D. 1981).

JURISDICTION

The judgment of the court of appeals was entered on August 11, 1983. The jurisdiction of this Court is invoked under 28 U.S.C. §1254(1).

CONSTITUTIONAL PROVISIONS INVOLVED

U.S. Const. Art. VI, cl. 2 (Supremacy clause).
U.S. Const. Art. I, §8, cl. 8 (Patent clause).

STATEMENT OF THE CASE

Petitioner Clark Equipment Company[1] is a Michigan company engaged in the manufacture of industrial vehicles and equipment. In 1969 it purchased the assets of the Melroe Manufacturing Company, a North Dakota company that

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[1]Companies related to Clark include:

Clark Equipment Australia Limited	Australia
Clark Construction Machinery Limited	Australia
Clark Equipment of Canada Ltd.	Canada
Clark Equipment Credit Corporation	Michigan
Clark Equipment Credit of Canada Ltd.	Canada
Clark Equipment Realty Corporation	Delaware
Clark Financial Marketing Corporation	Michigan
Clark Rental Corporation	Michigan
Clark Rental System, Inc.	Michigan
The White Motor Corporation	Delaware
New River Insurance Agency, Inc.	Delaware
Clark Equipment Engineering and Marketing Corporation	Michigan
Clark Automotive Products Corporation	Michigan
Clark Equipment A.G.	Switzerland
Clark Equipment Belgium N.V.	Belgium
Equipamentos Clark Ltda.	Brazil
Clark Equipment GmbH	Germany
Clark Central Parts GmbH	Germany
Clark Grundstucks GmbH	Germany
Clark Maquinaria, S.A.	Spain
Clark Verkauf und Service GmbH	Germany
Clark International Marketing S.A.	Cayman Island
Clark France Manutention S.A.	France
Clark Transportation Services Corporation	Michigan
Clark Equipment France S.A.	France
Clark Equipment Overseas Finance Corporation	Delaware
Celfor Insurance Co., Ltd.	Bermuda
Clark Credit Bank GmbH	Germany
Clark Leasing GmbH	Germany
Clark Credit France S.A.	France
Clark Equipment Credit of Australia Limited	Australia
Clark Equipment New Zealand Limited	New Zealand
Clark International Finance N.V.	Netherlands
Clark Information Technologies Corporation	Michigan
Clark Telecommunications, Inc.	Michigan
Clark Communications, Inc. of Indiana	Indiana
Clark Long Lines, Inc.	Michigan
Michigan Power Shovel Company	Michigan

manufactured a four-wheel skid steer industrial loader under the trade name "Bobcat." Respondents Louis and Cyril Keller claimed the patent rights to the Bobcat. These rights were embodied in three patents, which were referred to throughout the course of the litigation as the '503, '117, and '254 patents.

Clark continued to manufacture the Bobcat after it acquired the assets of Melroe. Initially, Clark paid the Kellers royalties for the Bobcat under a 1963 licensing agreement between the Kellers and Melroe. Later, in 1971, Clark and the Kellers entered into their own licensing agreement. Under the terms of this agreement the Kellers granted Clark an exclusive right to make and sell the Bobcat, with a concomitant right to sublicense its manufacture and sale. In return, the Kellers received from Clark a $15 royalty for each Bobcat sold by Clark and a $10 royalty for each Bobcat sold by a Clark sublicensee.

Clark entered into sublicense agreements with two other companies, Owatonna Manufacturing Company and J.I. Case Company. Both agreements obligated Clark to enforce its Bobcat patent rights against infringers. Subsequently, both of these licensees advised Clark that unlicensed competitors were marketing infringing loaders. The licensees then suspended royalty payments until Clark took action against the unlicensed infringers.

The unlicensed infringers took the position that the Bobcat patents were invalid. Clark was also aware of previous attacks on the validity of the Bobcat patents that had terminated without resolving the question of the validity of the patents. Finally, Clark discovered in the Melroe files an opinion of a Melroe attorney that at least one of the patents was invalid and "without any possibility of arguing

otherwise." Mindful of *Walker Process Equipment Co. v. Food Machinery and Chemical Corp.*, 382 U.S. 172 (1965), which held that a patent owner asserting invalid patents violated the antitrust laws, Clark determined that it was not prudent to sue the infringing competitors. Instead, Clark filed an action in the Western District of Michigan seeking a declaratory judgment that the three Bobcat patents were invalid and therefore that the royalty agreement with the Kellers was void. Federal jurisdiction over this action was provided by 28 U.S.C. §§1332 and 1338. The Kellers then filed a separate action in the District Court of North Dakota asserting that the patents were valid and that they covered the Bobcat loaders. Venue of the Clark's action in the Western District of Michigan was transferred to North Dakota, and the two actions were consolidated.

The trial court found that all three patents covered patentable inventions. The '117 patent, however, was adjudged invalid under 35 U.S.C. §102(b) because it had been filed more than one year after the Bobcat had been offered for sale. *Clark Equipment Co. v. Keller*, 197 U.S.P.Q. 209 (D.N.D. 1976). On appeal, the Eighth Circuit reversed in part and affirmed in part. *Clark Equipment Co. v. Keller*, 570 F.2d 778 (8th Cir.), cert. denied, 439 U.S. 825 (1978). It upheld the district court's finding that the '117 patent was invalid. The '254 design patent was also found invalid by the Eighth Circuit, however, because it failed to meet the novelty requirements of 35 U.S.C. §171. Finally, the Eighth Circuit agreed with the district court that the only remaining patent, the '503, was valid. The case was then remanded to the district court to determine (a) whether the '503 patent applied to the Bobcat, and (b) the merits of common law breach of contract and tort claims raised by the Kellers in the event that their patents were found to be invalid.

On remand, the district court found that the '503 patent did not apply to the Bobcat. *Keller v. Clark Equipment Co.*, 210 U.S.P.Q. 742 (D.N.D. 1981). Thus, the only remaining possible Keller patent on the Bobcat had no application, and the licensing agreement was void. The district court also determined that the contract claim asserted by the Kellers was unmeritorious. The Kellers had claimed that there was an implied contract between them and Melroe Manufacturing and that, under the terms of this agreement, Melroe had an obligation to file timely the application for the '117 patent. According to the Kellers, Clark assumed Melroe's liability for this obligation when it bought the assets of Melroe.

The tort claim asserted by the Kellers was similar to the contract claim, but the district court reached an opposite conclusion with respect to it. The Kellers claimed that the Melroe company had an obligation to file a timely application on behalf of the Kellers for the '117 patent. This duty had been breached by late filing. Clark then assumed responsibility for this tort when it bought the assets of Melroe in 1969.

In ruling for the Kellers on this claim, the district court found that a duty to file the '117 patent application for the Kellers was assumed by Melroe in 1962. In that year, a dispute arose between Clifford Melroe, a principal of Melroe Manufacturing, and the Kellers over ownership of the patent rights. In a meeting, Clifford Melroe insisted that the Kellers turn over material relating to the patent and that the Company process the application on its own behalf. The Kellers complied with this request, and the Com-

pany filed the application although, as it turned out, the application was untimely. From these facts, the district court inferred the assumption of a duty by Melroe to the Kellers to file the patent application on their behalf.

The district court found that that duty was breached in 1962 when the application was filed late. The injury to the Kellers did not occur, however, until 1972 because only then did Clark cease paying royalties under their licensing agreement. Thus, the 6-year North Dakota statute of limitation did not bar the action. Finally, the district court found that Clark assumed Melroe's tort liability when it purchased the latter's assets under one of two alternative theories: an express assumption under the terms of the purchase agreement, or based upon the legal doctrine of *de facto* merger.

The Eighth Circuit affirmed the district court on August 11, 1983, issuing an opinion that tracked the reasoning of the district court. *Keller v. Clark Equipment Co.*, 715 F.2d 1280 (8th Cir. 1983).

REASONS FOR GRANTING THE WRIT

Federal law demands that ideas in general circulation be dedicated to the common good unless protected by a valid patent. *Lear, Inc. v. Adkins*, 395 U.S. 653, 656 (1969); *Sears, Roebuck v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

To protect this important principle of federal law, the Court, relying on the Supremacy Clause, U.S. Const. Art. VI, cl. 2, and the Patent clause, U.S. Const. Art. I, §8, cl. 8, has reversed lower courts employing state law to expand or alter the limited monopoly granted by federal patent law.

Thus, in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S.

225, 232-33 (1964), the Court refused to condone the use of state unfair competition law to prohibit the copying of an article invalidly patented:

> "To allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public."

This principle was reiterated in a companion case, *Compco Corp. v. Day-Brite Lighting*, 376 U.S. 234, 236 (1964), where the Court declared that "when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article."

Compco and *Sears* stand for the proposition that state law, particularly tort law, may not act as a surrogate form of protection for invalidly patented articles. Invalidly patented articles, or articles for which patent protection has never been sought, remain in the public domain.

In *Lear v. Adkins*, 395 U.S. 653 (1969), the Court extended the rationale of *Compco* and *Sears* in holding that neither the doctrine of equitable estoppel nor a licensing agreement may be used to prevent a licensee from withholding royalties and contesting the validity of the licensor's patent. The Court explained its rationale as follows:

> "Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If

> they are muzzled, the public may continually be required to pay tribute to would be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has issued."

Id. at 670-71. *Lear* declared, in the name of federal law and public policy, that licensees must be free to challenge the validity of the patents they license. This freedom would be illusory if the licensor were permitted to maintain a degree of monopoly power over the licensee under the guise of state law.

Read together, *Lear* and the *Compco-Sears* cases establish a clear federal policy in favor of patent licensees like Clark who challenge the patents they license under royalty agreements. This federal policy favors challenges to the monopoly power of patents, and shields licensees from attempts to coerce payment of royalties under the rubric of state law, in particular state tort law, when the patent is determined to be invalid.

The Eighth Circuit's decision in this case flies in the face of this policy. It permits the Kellers, holders of invalid or inapplicable patents, to continue to collect royalties from Clark based on state tort law. As such, the decision stands in opposition to *Compco* and *Sears*, where the Court forbade the use of state unfair competition law, a branch of tort law, as a substitute for invalid patents.

Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979) is distinguishable. There the Court held valid a clause in a royalty agreement which provided that reduced royalties would be paid even in the event a patent was unobtainable

on the device. In so ruling, the Court permitted state contract law to enforce that clause of the agreement. But the Court emphasized that the "parties contracted with awareness . . . of the possibility that a patent might not issue." *Id.* at 261. Moreover, the application of state contract law was not inconsistent with any aims of federal patent law. In distinguishing *Lear v. Adkins*, the Court noted that "neither the holding nor the rationale of *Lear* controls when no patent has issued, and no ideas have been withdrawn from public use." *Id.* at 264.

Here, unlike in *Aronson*, patents did issue and, based on Clark's challenge, were declared to be invalid or inapplicable. Unlike in *Aronson*, Clark did not contractually undertake to pay royalties in the absence of a valid patent. Indeed, its licensory agreement with the Kellers expressly gave it the right to challenge the validity of the patents. 197 U.S.P.Q. at 88. Nonetheless, the Eighth Circuit's decision forces Clark to pay royalties for invalid patents.

The result is particularly oppressive here where Clark is not even the alleged tortfeasor. Instead, it was judicially decreed to be responsible to pay the royalties under the theory that it assumed liability for the tort. This assumption occurred even though the court acknowledged that Clark had no knowledge of the putative tort, 715 F.2d at 1289, and agreed to assume only those liabilities disclosed by Melroe, *id.*

CONCLUSION

Because the Eighth Circuit's decision in this case, under the guise of state tort law, has cut back significantly the strong federal policy set out in *Lear, Compco-Sears,* and other cases of this Court limiting patent monopoly rights to valid patents, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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